

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT
OF
DELAWARE COMMUNITY SCHOOL CORPORATION
DELAWARE COUNTY, INDIANA
July 1, 2004 to June 30, 2006



FILED
03/23/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Treasurer	Nancy Goss Tarinna Morris	07-01-04 to 06-30-05 07-01-05 to 06-30-07
Superintendent of Schools	R. Stephen Gookins	07-01-04 to 06-30-07
President of the School Board	Sue Brooke Tom Marquell Sean Burcham	07-01-04 to 06-30-05 07-01-05 to 06-30-06 07-01-06 to 06-30-07



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE DELAWARE COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Delaware Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, which collectively comprise the School Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the School Corporation prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, each major fund, and the aggregate remaining fund information of the School Corporation as of June 30, 2005 and 2006, and the respective cash receipts and cash disbursements during the years then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated March 1, 2007, on our consideration of the School Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the School Corporation taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The School Corporation has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School Corporation's basic financial statements. The Schedule of Long-Term Debt is presented for additional analysis and is not a required part of the basic financial statements. The Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

March 1, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE DELAWARE COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

We have audited the financial statements of the Delaware Community School Corporation (School Corporation), as of and for the years ended June 30, 2005 and 2006, and have issued our report thereon dated March 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by any one other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 1, 2007

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2005

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 8,500,182
Restricted assets:	
Cash and investments	<u>1,719,819</u>
Total assets	<u>\$ 10,220,001</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,719,819
Unrestricted	<u>8,500,182</u>
Total net assets	<u>\$ 10,220,001</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
June 30, 2006

<u>Assets</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 9,276,810
Restricted assets:	
Cash and investments	<u>1,328,071</u>
Total assets	<u>\$ 10,604,881</u>
 <u>Net Assets</u>	
Restricted for:	
Debt service	\$ 1,328,071
Unrestricted	<u>9,276,810</u>
Total net assets	<u>\$ 10,604,881</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2005

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 8,415,714	\$ -	\$ 142,672	\$ (8,273,042)
Support services	11,647,102	840,668	319,535	(10,486,899)
Community services	271,111	-	-	(271,111)
Nonprogrammed charges	533,157	-	-	(533,157)
Debt service	2,273,650	-	-	(2,273,650)
Total governmental activities	<u>\$ 23,140,734</u>	<u>\$ 840,668</u>	<u>\$ 462,207</u>	<u>(21,837,859)</u>
General receipts:				
Property taxes				11,793,994
Other local sources				1,821,301
State aid				11,186,906
Grants and contributions not restricted				1,107,810
Sale of property, adjustments, and refunds				83,965
Investment earnings				201,702
Transfers:				
Intergovernmental				<u>977</u>
Total general receipts and transfers				<u>26,196,655</u>
Change in cash and investments				4,358,796
Net assets - beginning				<u>5,861,205</u>
Net assets - ending				<u>\$ 10,220,001</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH ACTIVITIES
For the Year Ended June 30, 2006

Functions/Programs	Disbursements	Program Receipts		Net (Disbursement) Receipts
		Charges for Services	Operating Grants and Contributions	Total
Governmental activities:				
Instruction	\$ 8,600,881	\$ -	\$ 98,873	\$ (8,502,008)
Support services	12,363,288	890,793	397,760	(11,074,735)
Community services	251,627	-	-	(251,627)
Nonprogrammed charges	530,420	-	-	(530,420)
Debt service	2,904,551	-	-	(2,904,551)
Total governmental activities	<u>\$ 24,650,767</u>	<u>\$ 890,793</u>	<u>\$ 496,633</u>	<u>(23,263,341)</u>
General receipts:				
Property taxes				8,773,976
Other local sources				1,609,465
State aid				11,782,457
Grants and contributions not restricted				1,029,498
Sale of property, adjustments, and refunds				52,332
Investment earnings				<u>400,493</u>
Total general receipts				<u>23,648,221</u>
Change in cash and investments				384,880
Net assets - beginning				<u>10,220,001</u>
Net assets - ending				<u>\$ 10,604,881</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$ 5,766,585	\$ 1,434,104	\$ 3,034,664	\$ 2,301,389	\$ 802,865	\$ 1,316,352	\$ 14,655,959
Intermediate sources	243	-	-	-	-	1,463	1,706
State sources	11,313,952	-	-	-	-	298,689	11,612,641
Federal sources	-	-	-	-	-	1,144,282	1,144,282
Sale of property, adjustments and refunds	40,020	16,504	101	1	19,852	7,487	83,965
Intergovernmental transfers	121,563	-	-	-	-	309,639	431,202
Total receipts	17,242,363	1,450,608	3,034,765	2,301,390	822,717	3,077,912	27,929,755
Disbursements:							
Current:							
Instruction	7,678,737	-	-	-	-	736,977	8,415,714
Support services	7,150,563	1,143,902	-	1,544,237	246,327	1,562,073	11,647,102
Community services	271,078	-	-	-	-	33	271,111
Nonprogrammed charges	395,056	-	25,000	-	175,000	368,326	963,382
Debt services	-	-	2,273,650	-	-	-	2,273,650
Total disbursements	15,495,434	1,143,902	2,298,650	1,544,237	421,327	2,667,409	23,570,959
Excess of total receipts over total disbursements	1,746,929	306,706	736,115	757,153	401,390	410,503	4,358,796
Cash and investments - beginning	3,816,636	361,577	715,814	(48,156)	143,201	872,133	5,861,205
Cash and investments - ending	\$ 5,563,565	\$ 668,283	\$ 1,451,929	\$ 708,997	\$ 544,591	\$ 1,282,636	\$ 10,220,001

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2006

	General	Transportation Operating	Debt Service	Capital Projects	School Bus Replacement	Other	Totals
Receipts:							
Local sources	\$4,550,844	\$ 1,212,782	\$ 2,179,708	\$ 2,015,694	\$ 239,560	\$1,471,434	\$11,670,022
Intermediate sources	122	-	-	-	-	4,579	4,701
State sources	11,865,155	600	-	-	-	181,528	12,047,283
Federal sources	16,275	-	-	-	-	1,245,030	1,261,305
Sale of property, adjustments and refunds	40,039	154	-	3,766	1	8,376	52,336
Intergovernmental transfers	309,132	47,124	-	-	-	505,031	861,287
Total receipts	16,781,567	1,260,660	2,179,708	2,019,460	239,561	3,415,978	25,896,934
Disbursements:							
Current:							
Instruction	7,940,132	-	-	-	-	660,749	8,600,881
Support services	7,273,240	1,117,927	-	1,930,268	502,379	1,539,474	12,363,288
Community services	251,505	-	-	-	-	122	251,627
Nonprogrammed charges	616,488	37,064	85,446	56,777	25,210	570,722	1,391,707
Debt services	-	-	2,275,042	-	-	629,509	2,904,551
Total disbursements	16,081,365	1,154,991	2,360,488	1,987,045	527,589	3,400,576	25,512,054
Excess (deficiency) of total receipts over (under) total disbursements	700,202	105,669	(180,780)	32,415	(288,028)	15,402	384,880
Cash and investments - beginning	5,563,565	668,283	1,451,929	708,997	544,591	1,282,636	10,220,001
Cash and investments - ending	\$6,263,767	\$ 773,952	\$ 1,271,149	\$ 741,412	\$ 256,563	\$1,298,038	\$10,604,881

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2005

	Pension Trust Funds	Private-Purpose Trust Funds
Additions:		
Local sources	\$ -	\$ 7,730
Bonds and loans	<u>5,060,000</u>	<u>-</u>
Total additions	<u>5,060,000</u>	<u>7,730</u>
Deductions:		
Instruction	-	11,782
Support services	5,059,023	482
Nonprogrammed charges	<u>977</u>	<u>-</u>
Total deductions	<u>5,060,000</u>	<u>12,264</u>
Deficiency of total additions under total deductions	-	(4,534)
Cash and investments - beginning	<u>-</u>	<u>4,982</u>
Cash and investments - ending	<u><u>\$ -</u></u>	<u><u>\$ 448</u></u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH AND INVESTMENTS
FIDUCIARY FUNDS
For The Year Ended June 30, 2006

	<u>Private-Purpose Trust Funds</u>
Additions:	
Local sources	\$ 21,740
State sources	<u>1,500</u>
Total additions	<u>23,240</u>
Deductions:	
Instruction	13,043
Support services	<u>1,246</u>
Total deductions	<u>14,289</u>
Excess of total additions over total deductions	8,951
Cash and investments - beginning	<u>448</u>
Cash and investments - ending	<u><u>\$ 9,399</u></u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2005

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ <u>448</u>
<u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ <u>448</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
STATEMENT OF CASH AND INVESTMENTS
FIDUCIARY FUNDS
June 30, 2006

<u>Assets</u>	<u>Private-Purpose Trust Funds</u>
Cash and investments	\$ 9,399
	<u>9,399</u>
 <u>Net Assets</u>	
Held in trust for employee benefits and other purposes	\$ 9,399
	<u>9,399</u>

The accompanying notes are an integral part of the financial statements.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

School Corporation, as used herein, shall include, but is not limited to, school townships, school towns, school cities, consolidated school corporations, joint schools, metropolitan school districts, township school districts, county schools, united schools, school districts, cooperatives, educational service centers, community schools, community school corporations, and charter schools.

The School Corporation was established under the laws of the State of Indiana. The School Corporation operates under a Board of School Trustees form of government and provides educational services.

In determining the financial reporting entity, the School Corporation complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. There are no significant component units which require inclusion.

Joint Venture

The School Corporation is a participant with Muncie Community Schools, Blackford County Schools, Cowan Community School Corporation, Harrison-Washington School Corporation, Mt. Pleasant Township School Corporation, and Daleville School Corporation in a joint venture to operate the Delaware/Blackford Special Education Cooperative which was created to educate handicapped children. The School Corporation is obligated by contract to remit its shared cost billing annually to supplement the Cooperative. Complete financial statements for the Cooperative can be obtained from Muncie Community Schools, 2501 North Oakwood, Muncie, IN 47304.

The School Corporation is a participant with several area schools in a joint venture to operate the state District 22 Vocational Education Cooperative which was created to provide vocational education services. The Cooperative's continued existence depends on continued funding by the School Corporation. The School Corporation is obligated for the debts of the Cooperative. Complete financial statements for the Cooperative can be obtained from Muncie Community Schools, 2501 North Oakwood, Muncie, IN 47304.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Cash and Investments and the Statement of Cash Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. However, at this time, the School Corporation has not established any enterprise funds.

The School Corporation reports the following major governmental funds:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The transportation operating fund accounts for financial resources for the transportation of school children to and from school.

The debt service fund accounts for debt from funds borrowed or advanced for the purchase or lease of school buildings, school buses, judgments against the corporation, equipment or capital construction, and interest on emergency and temporary loans.

The capital projects fund accounts for planned construction, repair, replacement or remodeling; and the purchase, lease, upgrade, maintenance, or repair of computer equipment.

The school bus replacement fund is used to account for receipts and disbursements concerning the acquisition and disposal of school buses.

Additionally, the School Corporation reports the following fund types:

The pension trust fund accounts for the activities of the Retirement/Severance Fund, which accumulates resources for retirement and severance benefit payments.

The private-purpose trust funds report trust arrangements under which principal and income benefit the students.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the School Corporation utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to people outside the government (enterprise funds) or other departments or agencies primarily within the government (internal service funds). The School Corporation does not have any enterprise funds or internal service funds.

When both restricted and unrestricted resources are available for use, the School Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed.

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the School Corporation in June and in December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the School Corporation on or prior to June 30 of the year collected.

3. Compensated Absences

a. Sick Leave

Employees earn sick leave at the rate of 8 to 10 days per year. Part-time employees earn pro-rata sick leave based on actual hours of employment. Unused sick leave may be accumulated to a maximum of 90 days. Accumulated sick leave is not paid to teachers. However, nonteaching full-time employees are paid upon severance 30% of accumulated sick days up to a maximum of 24 days after 5 years of continuous service, 50% of accumulated sick days up to a maximum of 40 days after 10 years of continuous service, and 75% of accumulated sick days up to a maximum of 60 days after 15 years of continuous service.

b. Vacation Leave

Nonteaching or administrative and noncertified School Corporation employees earn vacation leave at rates from 5 days to 15 days per year based upon the number of years of service. Vacation leave does not accumulate from year to year.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. Personal Leave

School Corporation employees earn personal leave at the rate of 4 days per year. Part-time employees earn pro-rata personal leave based on actual hours of employment. Personal leave does not accumulate from year to year, but any unused personal leave is converted to sick leave and can accumulate as sick leave.

4. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental operations are accounted for as capital outlay disbursements of the fund upon acquisition.

5. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

6. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the School Corporation's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Cash and Investments and the Statement of Cash Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are reported as reimbursements.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Cash and Investments and the Statement of Cash Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Cash and Investments and the Statement of Cash Activities.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component units are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prior to the first required publication, the fiscal officer of the School Corporation submits to the governing board a proposed operating budget for the year commencing the following July 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the School Corporation receives approval of the Indiana Department of Local Government Finance.

The School Corporation's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. Balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the years ended June 30, 2005 and 2006, were as follows:

Transfer From	Transfer To	2004-2005	2005-2006
General fund	Other governmental	\$ 13,338	\$ 151,265
Debt Service fund	Other governmental	25,000	85,446
Capital Projects fund	Other governmental	175,000	56,777
Transportation Operating fund	Other governmental	-	37,064
School Bus Replacement fund	Other governmental	-	25,210
Special Education fund	Other governmental	-	472
Other governmental	General fund	121,563	309,132
	Transportation Operating fund	-	47,124
	Other governmental	95,324	148,797
Retirement/Severance Bond fund	Other governmental	977	-
Totals		<u>\$ 431,202</u>	<u>\$ 861,287</u>

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

The School Corporation typically uses transfers for cash flow purposes according to various statutes.

IV. Other Information

A. Risk Management

The School Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits) and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Medical Benefits to Employees

The Delaware Community School Corporation is a member of the North Central Indiana School Insurance Consortium. The purpose of the Consortium is:

1. To organize the member public school corporations as an area Insurance Consortium, pursuant to Indiana Code Section 5-10-8-5 (Establishment of Common and Unified Plan of Group Insurance), Indiana Code Section 20-5-11-1 through 20-5-11-5 (Authorization for school corporations to engage in joint programs; administrator and supervision of joint programs; and Indiana Code Section 20-5-2-1.2 through Indiana Code Section 20-5-2-6 General Powers and Duties of School Corporations).
2. To provide employee health benefits, employee welfare benefits and other school corporation insurance needs for Consortium member school corporations.

B. Related Party Transactions

During the period for which financial statements are presented, the School Corporation had material transactions with Delta-Eaton School Building Corporation in relation to financing and constructing or reconstructing facilities for lease to the school corporation in the amount of \$18,570,000. As of June 30, 2006, the amount of \$12,572,271 was due to Delta-Eaton School Building Corporation and the School Corporation was current on its payments to Delta-Eaton School Building Corporation.

C. Holding Corporation

The School Corporation has entered into a capital lease with Delta-Eaton School Building Holding Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the School Corporation. The lessor has been determined to be a related party of the School Corporation. Lease payments during the year totaled \$2,273,650 for 2004-2005 and \$2,275,042 for 2005-2006.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Postemployment Benefits

In addition to the pension benefits described below, the School Corporation provides postemployment severance pay benefits, as authorized by Indiana Code 5-10-8, to all full-time nonteaching employees who leave employment from the School Corporation with at least 5 years of service. Currently, 96 employees meet these eligibility requirements. The School Corporation provides 100% of this post-employment benefit. Disbursements for those postemployment benefits are recognized on a pay-as-you-go basis. During the year ended June 30, 2006, disbursements of \$322,418 were recognized for postemployment benefits.

E. Pension Plans

1. Agent Multiple-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the School Corporation authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The School Corporation's annual pension cost and related information, as provided by the actuary, is presented in this note:

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Actuarial Information for the Above Plan

	<u>PERF</u>
Annual required contribution	\$ 112,335
Interest on net pension obligation	(11,103)
Adjustment to annual required contribution	<u>12,653</u>
Annual pension cost	113,885
Contributions made	<u>147,222</u>
Decrease in net pension obligation	(33,337)
Net pension obligation, beginning of year	<u>(153,151)</u>
Net pension obligation, end of year	<u><u>\$ (186,488)</u></u>
Contribution rates:	
School Corporation	5.25%
Plan members	3%
Actuarial valuation date	07-01-05
Actuarial cost method	Entry age
Amortization method	Level percentage of projected payroll, closed
Amortization period	40 years
Amortization period (from date)	07-01-97
Asset valuation method	75% of expected actuarial value plus 25% of market value

Actuarial Assumptions

Investment rate of return	7.25%
Projected future salary increases:	
Total	5%
Attributed to inflation	4%
Attributed to merit/seniority	1%
Cost-of-living adjustments	2%

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO FINANCIAL STATEMENTS
(Continued)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 127,723	112%	\$ (123,596)
	06-30-04	113,197	126%	(153,151)
	06-30-05	113,885	130%	(186,488)

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

Teachers' Retirement Fund

Plan Description

The School Corporation contributes to the Indiana Teachers' Retirement Fund (TRF), a defined benefit pension plan. TRF is a cost-sharing multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All employees engaged in teaching or in the supervision of teaching in the public schools of the State of Indiana are eligible to participate in TRF. State statute (IC 5-10.2) governs, through the TRF Board, most requirements of the system and gives the School Corporation authority to contribute to the plan. The TRF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The School Corporation may elect to make the contributions on behalf of the member.

TRF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Teachers' Retirement Fund
150 West Market Street
Indianapolis, IN 46204
Ph. (317) 232-3860

Funding Policy and Annual Pension Costs

The School Corporation contributes the employer's share to TRF for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995. The School Corporation currently receives partial funding, through the school funding formula, from the State of Indiana for this contribution. The employer's share of contributions for certified personnel who are not employed under a federally funded program and were hired before July 1, 1995, is considered to be an obligation of, and is paid by, the State of Indiana.

Plan members are required to contribute 3% of their salary and the School Corporation is to contribute at an actuarially determined rate. The current rate has been actuarially determined under the entry age normal cost method to be 6.82% of covered wages. The School Corporation's required contributions to the plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$300,089, \$277,918, and \$263,075, respectively. The School Corporation actually contributed 100% of the required contribution for each of the fiscal years, respectively.

DELAWARE COMMUNITY SCHOOL CORPORATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Public Employees' Retirement Fund						
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets Over AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Excess AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 2,265,804	\$ 2,093,605	\$ 172,199	108%	\$ 2,560,748	7%
07-01-04	2,321,284	2,039,418	281,866	114%	2,688,041	10%
07-01-05	2,438,575	2,250,134	188,441	108%	2,785,362	7%

DELAWARE COMMUNITY SCHOOL CORPORATION
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

June 30, 2006

Description of Debt	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
Delta Middle School renovations	\$ 998,280	\$ 665,000
Albany, Royerton, DeSoto and Delta High School renovations	11,573,991	1,580,500
Bonds payable:		
General obligation bonds:		
Pension/Severance Buyout	<u>4,875,000</u>	<u>170,000</u>
Total governmental activities long-term debt	<u>\$ 17,447,271</u>	<u>\$ 2,415,500</u>

DELAWARE COMMUNITY SCHOOL CORPORATION
AUDIT RESULT AND COMMENT

CAPITAL ASSET RECORDS

The capital asset inventory presented for audit was incomplete. Several assets were listed without indicating a date acquired. Some other assets were included from a prior period without being listed on the previous asset inventory.

Every governmental unit should have a complete inventory of all fixed assets owned which reflect their acquisition value. Such inventory should be recorded on the applicable Capital Asset Ledger. A complete inventory should be taken at least every two years for good internal control and for verifying account balances carried in the accounting records. (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE DELAWARE COMMUNITY
SCHOOL CORPORATION, DELAWARE COUNTY, INDIANA

Compliance

We have audited the compliance of the Delaware Community School Corporation (School Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. The School Corporation's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School Corporation's management. Our responsibility is to express an opinion on the School Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School Corporation's compliance with those requirements.

In our opinion, the School Corporation complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

Internal Control Over Compliance

The management of the School Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the School Corporation's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

March 1, 2007

DELAWARE COMMUNITY SCHOOL CORPORATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended June 30, 2005 and 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 06-30-05	Total Federal Awards Expended 06-30-06
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553		\$ 44,962	\$ 55,068
National School Lunch Program	10.555		287,747	304,786
Total for federal grantor agency			332,709	359,854
<u>U.S. DEPARTMENT OF EDUCATION</u>				
Pass-Through Muncie Community Schools				
Special Education Cluster				
Special Education Grants to States	84.027			
		FY 2003	61,214	-
		FY 2004	495,040	45,198
		FY 2005	-	372,725
Total for cluster			556,254	417,923
Pass-Through Indiana Department of Education				
Title I Grants to Local Educational Agencies	84.010			
		04-1875	44,132	-
		05-1875	153,295	43,812
		06-1875	-	190,615
Total for program			197,427	234,427
Safe and Drug Free Schools State Grants	84.186			
		2002-04	5,008	-
		2004-06	-	7,996
		Project Peace	500	-
Total for program			5,508	7,996
State Grants for Innovative Programs	84.298			
		FY 2004-05	61,440	-
Class Size Reduction	84.340			
		Title II PL 107-110	44,531	-
		Title II PL 107-110	-	24,776
Total for program			44,531	24,776
Technology Grants	84.352			
		PL 106-554	7,931	-
		PL 106-554	-	2,000
Total for program			7,931	2,000
Improving Teacher Quality State Grants	84.367			
Title II, Part D		FY 2002-03	698	-
Title II, Part D		FY 2003-04	2,519	152
Total for program			3,217	152
Total for federal grantor agency			320,054	269,351
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security				
Disaster Grants - Public Assistance Grants				
Ice Storm	97.036	DR1573	14,793	-
Total for federal grantor agency			14,793	-
Total federal awards expended			\$ 1,223,810	\$ 1,047,128

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

DELAWARE COMMUNITY SCHOOL CORPORATION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

I. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Delaware Community School Corporation (School Corporation) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of School Corporations shall be conducted biennially. Such audits shall include both years within the biennial period.

II. Noncash Assistance

The School Corporation expended the following amount of noncash assistance for the years ending June 30, 2005 and 2006. This noncash assistance is also included in the federal expenditures presented in the schedule:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>2004-2005</u>	<u>2005-2006</u>
School Breakfast Program	10.553	\$ 5,416	\$ 4,767
National School Lunch Program	10.555	35,085	26,576

DELAWARE COMMUNITY SCHOOL CORPORATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	yes
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Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

DELAWARE COMMUNITY SCHOOL CORPORATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

DELAWARE COMMUNITY SCHOOL CORPORATION
EXIT CONFERENCE

The contents of this report were discussed on March 1, 2007, with R. Stephen Gookins, Superintendent of Schools; Pat Mapes, Assistant Superintendent; Steve Hall, Assistant Superintendent; Harry Fowler, Member of the School Board; Tarinna Morris, Treasurer; and Lois Cole, Deputy Treasurer. The officials concurred with our audit finding.